Tax Problem and Solution for Arizona

Summary: Many states have complex tax calculation systems with multi tax brackets such as AZ has 4, MO has 9 (1-10), CA has 9, and MN has 4 (up to 11) tax brackets during the past **100 years**. There are 45-216 withholding formulas*, xx-page withholding tables and x-xx page tax tables.

One simple slope formula can be used to match the above systems fairly and efficiently for replacing these complex formulas and tables to save x-xxx millions of dollars (Table 6*). Here are some examples:

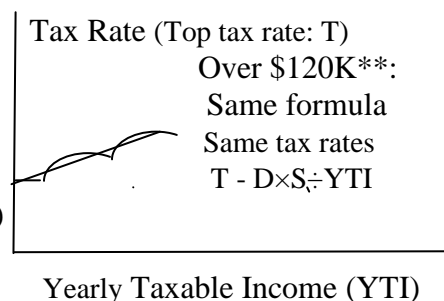* Research paper: www.scitcentral.com/documents/be5648da4795008d9893b752b9226c8f.pdf

1. Multi-Bracket Personal Income Tax Systems and Solution

AZ Tax Calculation System:
4 tax brackets at 2.59%, 3.34%, 4.17%, 4.5% and surcharge tax
50 withholding formulas (5×2×5)
Withholding Table and 6-page Tax Table
      (At $120K, tax rate is 3.6% in 2021)

Tax Rate (Top tax rate: T)
      Over $120K**:
      Same formula
      Same tax rates
      $T - D \times S \div YTI$

(Neutral tax revenue)

Long-Term Solution: Two Formulas
(* To simplify AZ tax systems and save millions of dollars)

Yearly Taxable Income (YTI)

Bill Draft for Personal Income Tax Simplification:
For all individuals regardless of filing status, the tax shall be computed with the following formula:

If the yearly taxable income (YTI) is: The tax rate and tax are:

Not over $120,000×S... $(YTI \div S \div C + 0.0259) \times TI$

Over $120,000×S.. $(0.045 - (D \times S \div YTI)) \times TI$

Where: Bottom tax rate is 2.59% and top tax rate is 4.5%, which may be reformed.
C = 11,881,188 from 120,000 to divide the 1st tax rate range difference (0.036-0.0259).
D = 1,080 from 120,000 to multiply the 2nd tax rate range difference (0.045-0.036).
F = the number of filing periods (52, 26, 24, 12, 4, 2, 1 or 364 for weekly, bi-weekly, semi-monthly, monthly, quarterly, semi-annual, annual or daily filing periods).
S = status number (2 for Married Filing Joint or Head of Household or 1 for Single or Married Filing Separately).
Tax rate ranges = 2.59%-3.6%-4.5% for YTI÷S not over and over $120,000 in 2021.
TI = taxable income.
YTI = annual taxable income = $TI \times F$.

(**For over $120,000×S, the same tax formula is converted into tax rate and tax format.)

Examples: **Tax rate and tax are:**
1. YTI=$72,000 (S=1):   (72,000÷1÷11,881,188+0.0259)×72,000=0.03196×72,000=2,301.12
2. YTI is $288,000 (S=2):   (0.045-(1,080×2÷288,000))×288,000=0.0375×288,000=10,800.00
3. Biweekly TI is $6,000 (S=1): (6,000×12÷1÷11,881,188+0.0259)×6,000=0.03196×6,000=191.76
4. Monthly TI is $24,000 (S=2): (0.045-1,080×2÷24,000÷12))×24,000=0.0375×24,000=900.00

For more information, contact us at johnlee@taxsimplecenter.net or 913-710-0957
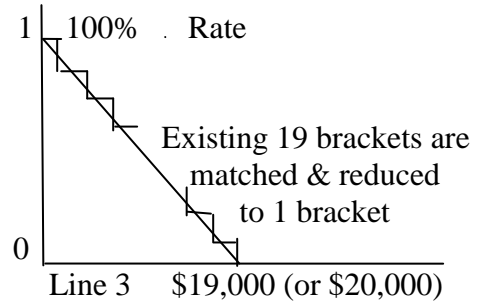
2. Allowable Dependent Tax Credit

AZ allowable dependent tax credit (ADTC) rate has 20 steps from 0.95 to 0. There are 20 cliff brackets or steps, in which the rates cliff down from such as 0.8 to 0.75 immediately without smooth change. These unsmooth 20 steps can be simplified and improved by one slope bracket with smooth rate changes.

One slope bracket is used to replace the rates with 20 steps in the Table V from 100% to 0 with the Line 3 is to $20,000.

Allowable Dependent Tax Credit Rate Simplification (2021)

Line 3	0 - $20,000	Over $20,000
Tax refund rate	1–(Line 3÷20,000)	0
	(Neutral tax revenue change)	

1 — 100% . Rate
Existing 19 brackets are matched & reduced to 1 bracket
0 — Line 3 $19,000 (or $20,000)

Bill Draft for Allowable Dependent Tax Credit

Arizona allowable dependent tax credit (ADTC) rate shall be reduced gradually from 100% for the Line 3 at 0 to 0% at or more than $20,000 with one formula of (1–(Line 3÷20,000)). The allowable dependent tax credit (ADTC) is: (1–(Line 3÷20,000))×Line 3.

## 3. Property Tax Refund (Credit) Claim (Form 140 PTC)

AZ Form 140PTC is used for Property Tax Refund (Credit). There are 22 household income (HI) ranges and 22 tax credits with 22 brackets (steps) for Schedule 1 or Schedule 2 in 2021.

2021 Schedule 1 (live alone)   Schedule 2 (live with spouse or another person)

Household Income	Tax Credits	Household Income	Tax Credits	Household Income	Tax Credits	Household Income	Tax Credits
0 – 1,750	$502	2,751 – 2,850	$256	0 – 2,500	$502	4,001 – 4,150	$256
1,751 – 1,850	$479	2,851 – 2,950	$234	2,501 – 2,850	$479	4,151 – 4,300	$234
……………………………………………………… (8 lines) ………………………………………………………
2,651 – 2,750	$279	3,751 & up	0	3,851 – 4,000	$279	5,501 & up	0 .

One slope bracket is used to replace the credits with the 20 brackets (steps) in the above table. Tax credits are reduced smoothly with 95% reduction.

100% — ($502)   Property Tax Credit
Existing 20 brackets are matched & reduced to 1 bracket
0 — $1,750   HI
(or $2,500) $3,750 (or $5,500)

Schedule   Property Tax Credit Simplification (2021)

Schedule				
1	HI: 0-$1,750	$1,750 - $3,750	Over $3,750	
Credit	$502	(1–(HI-1,750)÷2,000)×502	0	
2	HI: 0-$2,500	$2,500 - $5,500	Over $5,500	
Credit	$502	(1–(HI-2,500)÷3,000)×502	0	
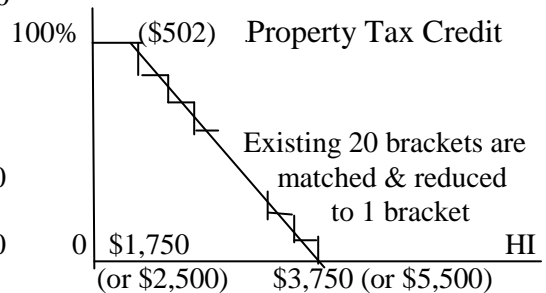
Bill Draft for Property Tax Refund (Credit):

Schedule 1: Property Tax Refund shall be reduced gradually from $502 for the household income (HI) at or less than $1,750 to 0% at or more than $3,750 with one formula of (1–(HI-1,750)÷2,000)×502.

Schedule 2: Property Tax Refund shall be reduced gradually from $502 for the household income (HI) at or less than $2,500 to 0% at or more than $5,500 with one formula of (1–(HI-2,500)÷3,000)×502.

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